LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 8091 | **DATE PREPARED:** Feb 2, 2001
BILL NUMBER: SB 537 | **BILL AMENDED:**

SUBJECT: ICHIA Assessment Revisions.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: *Affiliate Tax Credits:* The bill permits "affiliates" of member companies of the Indiana Comprehensive Health Insurance Association (ICHIA) to claim tax credits for assessments paid to ICHIA by the member.

Assessment Deductions: (1) The bill requires that each ICHIA member company's unused assessment tax credits for the prior calendar year be deducted from the annual loss assessment to each company. The bill requires that the member company certify the amount of its unused assessment tax credits for the prior calendar year to ICHIA before November 1st of each year to qualify for the assessment deduction. The bill also requires the ICHIA board to request reimbursement from appropriated funds in an amount equal to the amount of unused tax credits deducted in determining the assessments of members

(2) In addition to any deduction under (1) above, each ICHIA member company's unused assessment tax credits as of December 31, 2000, must be deducted from the annual loss assessment to each company in CY 2001, 2002, and 2003. The bill requires that the member company certify the amount of such unused tax credits to ICHIA before June 1, 2001, in order to qualify for this assessment deduction. The bill limits the amount of this assessment deduction in each year of the three-year period to one-third of the value of the unused tax credits. Any member company that fails to certify the unused assessment tax credits before June 1, 2001, but does so before June 1, 2002, is eligible for the assessment deduction in CY 2002, 2003, and 2004.

(3) The bill makes a continuing appropriation from the state General Fund to reimburse ICHIA for the amount by which its assessments of members are reduced by deductions for unused tax credits.

Assessment Cap: The bill limits the gross assessment that may be imposed on a member to the remainder of 1.5% of the member's total health insurance premiums minus the member's Medicare and Medicaid revenues. The bill makes a continuing appropriation from the state General Fund to reimburse ICHIA for the amount by which its claims and administrative costs exceed premiums and assessments due to the assessment cap.

Effective Date: Upon passage; January 1, 2001 (retroactive).

Explanation of State Expenditures: ICHIA program losses are estimated to be approximately $48.75 M in CY 2001 and $57.10 M in CY 2002. The bill would increase the state liability for ICHIA program losses in these years above the level that would otherwise be obtained under the current financing arrangement. This would occur because the bill presumably would allow member companies to more fully utilize tax credits for ICHIA assessments. Since unused assessment tax credits represent ICHIA program losses not paid from the state General Fund, the bill would serve to increase General Fund payments for ICHIA. The state liability for ICHIA costs would also likely be increased because ICHIA assessments would be less under the bill than under the current financing arrangement due to the 1.5% assessment cap. The reduction in assessments due to the assessment cap would be covered by money from the state General Fund. Consequently, under the current financing arrangement the estimated program losses specified above would not be completely financed from the state General Fund. However, under the bill it is expected that a larger proportion, if not all, of the program losses would be financed from the state General Fund.

Under the bill, the state liability for ICHIA program losses incurred in years prior to 2000 also would increase above the level that would reasonably occur under the current financing arrangement. This increase in liability would come from assessment tax credits from 1999 and prior years which could be deducted from member assessments during CY 2001, 2002, 2003, and 2004. Based on a survey conducted by Outsourced Administrative Systems (OASYS), the administrator of ICHIA, of ICHIA member companies in 2000, this impact could be at least $16.9 M in unused tax credits that could potentially go unclaimed in subsequent years under the current financing arrangement. The maximum annual amount a member company could deduct under this provision is one-third of the total unused credits from 1999 and prior years. Assuming that member companies will make these deductions during the period CY 2001 to 2003, the state's liability could be at least $5.63 M per year (over a three-year period) for these prior year unused tax credits.

Background: ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA and by assessments imposed on member companies (insurers, health maintenance organizations, and others that provide health insurance or health care coverage in Indiana). Assessments are imposed on member companies in May and November each calendar year in proportion to each member's respective share of total health insurance premiums received in Indiana during the year. This assessment base is estimated to equal $3,359.35 M for CY 2001 assessments and $3,432.22 M for CY 2002 assessments. These estimates assume that the 2.17% annual increase in the assessment base experienced since 1995 will continue. The assessments also depend upon the amount of program losses which have to be covered by the assessments. The ICHIA program loss is equal to the difference between premium receipts obtained by ICHIA and the total administrative and claims costs incurred by ICHIA during the calendar year. ICHIA program losses are estimated to be approximately $48.75 M in CY 2001 and $57.10 M in CY 2002. This assumes that ICHIA costs per insured will increase by 8.44% per year and the per insured premium will increase by only 1.7% per year (equal to the annual averages for both measures for the period 1995 to 1999). This also assumes that ICHIA enrollment will increase by 4.9% each year (equal to the annual average for the period 1995 to 2000). Given that program losses are estimated to grow at a substantially higher rate than the assessment base, the assessment cap imposed by the bill is expected to impact CY 2002 assessments. Thus, assessments would be decreased from $57.10 M to $51.48 M. Under the bill, the difference would have to be reimbursed by the Department of Insurance from the state General Fund. However, it is assumed that in the absence of the assessment cap the difference would still be paid from the state General Fund via either member tax credits, affiliate tax credits, or deductions from member assessments that also must be reimbursed by the Department from the state General Fund. The latter two devices are also provided for in the bill.

Member companies are permitted to offset the cost of the assessments by taking a dollar-for-dollar credit against Premium Taxes, Gross Income Taxes, Adjusted Gross Income Taxes, Supplemental Corporate Net Income Taxes, or any combination of these, up to the amount of taxes due each calendar year in which assessments were paid. Remaining assessments can be credited in succeeding years until the total of the assessments has been offset. Thus, most ICHIA assessments paid by member companies are currently reimbursed by the state General Fund in the form of reduced tax payments from those companies. A survey conducted by OASYS during 2000 indicated that, from CY 1996 to CY 1998, member company tax credits were on average equal to 67.94% of annual assessments. The survey also indicated that respondent companies carried over from CY 1998 to CY 1999 approximately $16.9 M in unused tax credits apparently accumulated from CY 1998 and preceding years. This suggests that at least some member companies were not able to exhaust their tax credits annually, and that they were accumulating tax credits but were not able to use them in subsequent years. However, the sample included only 276 of some 500 ICHIA member companies. As a result, the total tax credits and the total carryover for <u>all</u> member companies is not known. No reliable method has been developed by which this information could be used to estimate the typical tax credits or carryover that member companies experience. At a minimum, however, the value of carryover tax credits as of 2000 could be equal to $16.9 M. Presumably, the combination of allowing member affiliates to claim unused tax credits and allowing members to deduct unused tax credits from future years' assessments will enable members to fully exhaust assessment tax credits.

Finally, each year there is a lag between the time that member companies pay assessments to ICHIA and the time that they are able to offset these assessments with tax credits. This delay or “float” allows the state the use of the assessment money for a period of time without charge or without incurring some opportunity cost if instead General Fund money was used at that time to pay for ICHIA program losses. The monetary benefit that the state obtains via the “float” is, however, indeterminable. This benefit is not assumed to be large since a member company could, in compensating fashion, reduce its quarterly tax payments by an amount equal to the assessment tax credit that it ultimately will claim against its annual tax liability.

<u>Explanation of State Revenues:</u> See Explanation of State Expenditures, above.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> Indiana Comprehensive Health Insurance Association, Department of Insurance.

<u>Local Agencies Affected:</u>

<u>Information Sources:</u> M-Plan Testimony and Data, presented by Alex Slabosky to the Interim Study Committee on ICHIA, September 20, 2000; OASYS Assessment Survey, presented by Jim Bucher to the Interim Study Committee on ICHIA, September 20, 2000; OASYS Assessment Base Data, Jim Bucher, OASYS, 614-2065.